



U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

November 6, 2009

CBO Concludes Health Care Bill Reduces the Deficit

Dear Democratic Colleague:

As we head toward a vote on the Affordable Health Care for America Act (H.R. 3962), I wanted to bring to your attention an analysis of the bill, incorporating the manager's amendment, published last night by the Congressional Budget Office (CBO). CBO concludes that the bill *reduces* the deficit, and in reaching this conclusion, CBO quantifies some of the savings that result from the bill's reforms.

Deficit Reduction. CBO's analysis of the bill finds that H.R. 3962 reduces the deficit by \$109 billion over 2010-2019 – including net cash flow of \$72 billion over that period stemming from the new Community Living Assistance Services (CLASS) program. CBO also finds that H.R. 3962 is likely to reduce deficits in the decade following 2019 by up to one-quarter of one percent of GDP.

Health System Reform. H.R. 3962 makes multiple improvements in how we pay for health care so that we reward quality and coordination of care and reduce waste. Many of these changes occur by reforming how we pay providers under Medicare, such as moving toward bundled payments and promoting the development of accountable care organizations. CBO, the Medicare Payment Advisory Commission, and various outside experts have pointed to these reforms as crucial to making our health care programs more fiscally sustainable over the long term. CBO's analysis quantifies the savings associated with some of these provisions. Examples of the reforms included in the bill include:

- ***Reducing preventable hospital readmissions.*** The bill changes payment incentives to hospitals and post-acute care providers to promote coordination and discourage avoidable readmissions. CBO estimates that these provisions save \$9.3 billion over ten years. The Senate's readmission policy, by contrast, saves only \$2.1 billion.
- ***Eliminating overpayments to private plans.*** The bill seeks to level the Medicare playing field between traditional fee-for-service plans and managed care plans. CBO estimates that the House bill saves \$154 billion by eliminating overpayments to Medicare Advantage plans. These overpayments are not associated with better health outcomes for enrollees, and they substantially exceed per capita payments for traditional fee-for-service Medicare.

- ***Other payment reforms.*** The House bill, like the Senate bill, includes other payment reforms, some of which CBO recognizes as producing measurable cost savings for the first ten years. The House bill's payment reforms include: establishing a payment innovation center to empower the Centers for Medicare and Medicaid Services (CMS) to pursue additional payment and delivery system reforms, as well as supporting the development and expansion of accountable care organizations, more bundling of payments to cover episodes of care rather than fragmented payments for each service provided, and "medical home" programs to support coordination of care for patients. CMS will have the ability and the mandate to expand these reforms on a large-scale basis.

There is a lot of good budgetary data in the CBO estimate, which can be accessed from its website. But here's the bottom line: *over the next ten years, H.R. 3962 bill reduces the deficit by \$109 billion (including the CLASS program provisions)*, and over the subsequent ten years, it is likely to continue to reduce the deficit by up to one quarter of one percent of GDP.

Sincerely,

A handwritten signature in black ink, reading "John Spratt". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.

John M. Spratt, Jr.
Chairman